



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

12<sup>th</sup> July 2012

Mervyn King  
Governor  
Bank of England  
Threadneedle Street  
London  
EC2R 8AH

Dear Mervyn,

#### FUNDING FOR LENDING SCHEME

Thank you for your letter dated 12th July, setting out the arrangements, objectives and expected economic impact of the Funding for Lending Scheme.

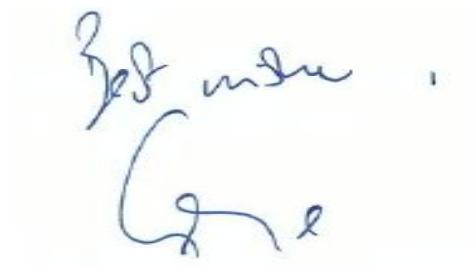
You explained that the aim of the Funding for Lending Scheme is to make loans cheaper and more easily available, and therefore boost lending to the real economy. This includes loans to businesses and mortgages to families. Access to the scheme will be linked to how much each bank and building society lends to the real economy, so that those that lend more will be able to borrow more in the Scheme, and do so at lower cost.

The Funding for Lending Scheme will provide welcome support to households and businesses at a challenging time for the UK economy. The UK is recovering from a long and deep recession in the face of ongoing uncertainty in the euro zone, which is having a negative impact on growth and investment across the world. This uncertainty is contributing to increased funding costs for UK banks, and tighter credit conditions for households and businesses. The FLS will support the flow of credit to where it is needed, complementing the MPC's asset purchase programme in easing monetary policy conditions.

I am confident that the scheme you have proposed balances the need to ensure as wide a participation in the scheme as possible with strong incentives for individual banks to improve their lending performance.

I welcome the Scheme and the support that it will provide to the real economy. I confirm that the scheme is within the remit of the Bank and that I approve of the launch of the Scheme.

The Bank and HM Treasury will work closely together on this Scheme, through a joint Bank-HM Treasury Oversight Board.

A handwritten signature in blue ink, appearing to read 'George Osborne', with a large, stylized 'G' at the start.

GEORGE OSBORNE